

CITY OF AUBURN, KANSAS
Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Auburn, Kansas

We have audited the accompanying financial statements of the City of Auburn, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the City's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which practice differs from accounting principles generally accepted in the United States of America. The effect on the financial statements of these differences is also described in Note 2.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Auburn, Kansas, as of December 31, 2011 or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Auburn, Kansas, as of December 31, 2011, and the cash receipts and expenditures and budgetary comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 2.

Groff & Berry

June 10, 2012

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2011

| Funds | Beginning Unencumbered Cash Balance | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add: | |
|-------------------------------|---|---------------------|---------------------|--|--|------------------------|
| | | | | | Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
| Governmental type: | | | | | | |
| General | \$ 96,337 | \$ 350,072 | \$ 392,136 | \$ 54,273 | \$ 6,902 | \$ 61,175 |
| Special revenue: | | | | | | |
| Special highway | 44,423 | 87,635 | 48,153 | 83,905 | 264 | 84,169 |
| Capital improvements reserve | 183,784 | 72,922 | 17,513 | 239,193 | 95,760 | 254,953 |
| Proprietary type: | | | | | | |
| Enterprise: | | | | | | |
| Sewer utility | 333,290 | 201,910 | 161,074 | 374,126 | 583 | 374,709 |
| Gas utility | 770,701 | 992,073 | 954,907 | 807,867 | 85,472 | 893,339 |
| Sewer replacement | 80,955 | 7,650 | - | 88,605 | - | 88,605 |
| Debt service type: | | | | | | |
| General obligation | | | | | | |
| bond and interest | 86,257 | 147,230 | 167,322 | 66,165 | - | 66,165 |
| Fiduciary type: | | | | | | |
| Expendable trusts: | | | | | | |
| Meter deposits | 10,247 | 3,848 | 4,325 | 9,770 | - | 9,770 |
| Total reporting entity | \$ 1,605,994 | \$ 1,863,340 | \$ 1,745,430 | \$ 1,723,904 | \$ 108,981 | \$ 1,832,885 |
| Composition of cash: | Cash in Landmark National Bank: | | | | | |
| | Checking accounts | | | | | |
| | Less: outstanding checks | | | | | |
| | Money market accounts | | | | | |
| | Certificates of deposit | | | | | |
| | Cash in CoreFirst Bank: | | | | | |
| | Checking account | | | | | |
| | Cash in Kaw Valley Bank: | | | | | |
| | Certificate of deposit | | | | | |
| | Cash in Capitol Federal Savings: | | | | | |
| | Certificate of deposit | | | | | |
| | Total reporting entity | | | | | |
| | | | | | | \$ 1,832,885 |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS

STATEMENT 2

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| <u>Funds</u> | <u>Certified Budget</u> | <u>Adjustment for Qualifying Budget Credits</u> | <u>Total Budget for Comparison</u> | <u>Expenditures Chargeable to Current Year</u> | <u>Variance - Favorable (Unfavorable)</u> |
|---|-----------------------------|---|--|--|---|
| Governmental type: | | | | | |
| General | \$ 416,818 | \$ - | \$ 416,818 | \$ 392,136 | \$ 24,682 |
| Special revenue: | | | | | |
| Special highway | 86,827 | - | 86,827 | 48,153 | 38,674 |
| Proprietary type: | | | | | |
| Enterprise: | | | | | |
| Sewer utility | 383,036 | - | 383,036 | 161,073 | 221,963 |
| Gas utility | 1,505,980 | - | 1,505,980 | 954,907 | 551,073 |
| Sewer replacement | 88,605 | - | 88,605 | - | 88,605 |
| Debt service type: | | | | | |
| General obligation bond and interest | 234,400 | - | 234,400 | 167,322 | 67,078 |
| Fiduciary type: | | | | | |
| Expendable trusts: | | | | | |
| Meter deposits | 7,000 | - | 7,000 | 4,325 | 2,675 |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS

GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable (Unfavorable) |
|---|------------------|-------------------|--|
| Cash receipts: | | | |
| Taxes and shared revenue: | | | |
| Ad valorem property tax | \$ 105,049 | \$ 107,188 | \$ (2,139) |
| Delinquent | 2,111 | - | 2,111 |
| Motor vehicle | 15,903 | 16,126 | (223) |
| Recreational vehicle | 196 | 200 | (4) |
| 16/20M vehicle | 365 | 267 | 98 |
| Sales tax | 179,257 | 162,600 | 16,657 |
| Race track sales tax | 89 | - | 89 |
| Fines | 13,199 | 8,000 | 5,199 |
| Licenses and permits | 1,249 | 705 | 544 |
| Franchise tax | 6,098 | 5,348 | 750 |
| Reimbursements | 916 | 1,100 | (184) |
| Rent | 19,075 | 18,500 | 575 |
| Interest | 2,783 | 5,360 | (2,577) |
| Fees from fines | 2,428 | 1,538 | 890 |
| Other | <u>1,354</u> | <u>400</u> | <u>954</u> |
| Total cash receipts | <u>350,072</u> | <u>\$ 327,332</u> | <u>\$ 22,740</u> |
| Expenditures: | | | |
| Personal services | 138,563 | \$ 146,458 | \$ 7,895 |
| Contractual services | 74,488 | 78,846 | 4,358 |
| Commodities | 13,026 | 12,750 | (276) |
| Capital outlay | 88,025 | 28,000 | (60,025) |
| Other | 5,112 | 3,200 | (1,912) |
| Transfer - capital improvements reserve | <u>72,922</u> | <u>147,564</u> | <u>74,642</u> |
| Total expenditures | <u>392,136</u> | <u>\$ 416,818</u> | <u>\$ 24,682</u> |
| Receipts over (under) expenditures | (42,064) | | |
| Unencumbered cash, beginning | <u>96,337</u> | | |
| Unencumbered cash, ending | <u>\$ 54,273</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
SPECIAL HIGHWAY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable <u>(Unfavorable)</u> |
|------------------------------------|------------------|------------------|---|
| Cash receipts: | | | |
| State payments | \$ 31,212 | \$ 31,500 | \$ (288) |
| County payments | 20,043 | 19,910 | 133 |
| Interest | 557 | 560 | (3) |
| Sales tax | 33,847 | - | 33,847 |
| Sale of equipment | <u>1,976</u> | <u>-</u> | <u>1,976</u> |
| Total cash receipts | <u>87,635</u> | \$ <u>51,970</u> | \$ <u>35,665</u> |
| Expenditures: | | | |
| Contractual services | 3,768 | \$ 80,900 | \$ 77,132 |
| Commodities | 9,805 | 5,927 | (3,878) |
| Capital outlay | <u>34,580</u> | <u>-</u> | <u>(34,580)</u> |
| Total expenditures | <u>48,153</u> | \$ <u>86,827</u> | \$ <u>38,674</u> |
| Receipts over (under) expenditures | 39,482 | | |
| Unencumbered cash, beginning | <u>44,423</u> | | |
| Unencumbered cash, ending | \$ <u>83,905</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
CAPITAL IMPROVEMENTS RESERVE FUND (NOT BUDGETED)
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
For the Year Ended December 31, 2011

| | <u>Actual</u> |
|------------------------------------|--------------------------|
| Cash receipts: | |
| Transfer from general fund | \$ <u>72,922</u> |
| Total cash receipts | <u>72,922</u> |
| Expenditures: | |
| Capital outlay | <u>17,513</u> |
| Total expenditures | <u>17,513</u> |
| Receipts over (under) expenditures | 55,409 |
| Unencumbered cash, beginning | <u>183,784</u> |
| Unencumbered cash, ending | \$ <u><u>239,193</u></u> |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS

SEWER UTILITY FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
 ACTUAL AND BUDGET
 For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable (Unfavorable) |
|---------------------------------------|-------------------|-------------------|--|
| Cash receipts: | | | |
| User fees | \$ 197,503 | \$ 203,439 | \$ (5,936) |
| Interest | 4,121 | 6,500 | (2,379) |
| Other | <u>286</u> | <u>-</u> | <u>286</u> |
| Total cash receipts | <u>201,910</u> | <u>\$ 209,939</u> | <u>\$ (8,029)</u> |
| Expenditures: | | | |
| Personal services | 29,589 | \$ 34,926 | \$ 5,337 |
| Contractual services | 19,006 | 37,936 | 18,930 |
| Commodities | 2,174 | 7,163 | 4,989 |
| Capital outlay | 7,295 | 200,000 | 192,705 |
| Transfer to sewer replacement fund | 7,650 | 7,650 | - |
| Transfer to GO bond and interest fund | <u>95,360</u> | <u>95,361</u> | <u>1</u> |
| Total expenditures | <u>161,074</u> | <u>\$ 383,036</u> | <u>\$ 221,962</u> |
| Receipts over (under) expenditures | 40,836 | | |
| Unencumbered cash, beginning | <u>333,290</u> | | |
| Unencumbered cash, ending | <u>\$ 374,126</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS

GAS UTILITY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable (Unfavorable) |
|------------------------------------|-------------------|---------------------|--|
| Cash receipts: | | | |
| Consumer sales | \$ 951,807 | \$ 1,300,000 | \$ (348,193) |
| Penalties and connection fees | 3,457 | 3,981 | (524) |
| Sales tax | 14,212 | 15,600 | (1,388) |
| New installations | 11,113 | - | 11,113 |
| Reimbursements | 1,194 | - | 1,194 |
| Interest | 8,493 | 14,000 | (5,507) |
| Miscellaneous | <u>1,797</u> | <u>80</u> | <u>1,717</u> |
| Total cash receipts | <u>992,073</u> | <u>\$ 1,333,661</u> | <u>\$ (341,588)</u> |
| Expenditures: | | | |
| Personal services | 215,661 | \$ 223,802 | \$ 8,141 |
| Contractual services | 52,954 | 56,560 | 3,606 |
| Commodities | 17,719 | 28,253 | 10,534 |
| Gas | 600,933 | 1,085,742 | 484,809 |
| Sales tax | 14,472 | 15,600 | 1,128 |
| Refunds | 1,420 | 1,823 | 403 |
| Property tax | 652 | 5,000 | 4,348 |
| Capital improvements | 51,048 | 89,000 | 37,952 |
| Interest paid | <u>48</u> | <u>200</u> | <u>152</u> |
| Total expenditures | <u>954,907</u> | <u>\$ 1,505,980</u> | <u>\$ 551,073</u> |
| Receipts over (under) expenditures | 37,166 | | |
| Unencumbered cash, beginning | <u>770,701</u> | | |
| Unencumbered cash, ending | <u>\$ 807,867</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
SEWER REPLACEMENT FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable (Unfavorable) |
|------------------------------------|-------------------------|-------------------------|--|
| Cash receipts: | | | |
| Transfer from sewer utility | \$ <u>7,650</u> | \$ <u>7,650</u> | \$ <u>-</u> |
| Total cash receipts | <u>7,650</u> | \$ <u><u>7,650</u></u> | \$ <u><u>-</u></u> |
| Expenditures: | | | |
| Capital outlay | <u>-</u> | \$ <u>88,605</u> | \$ <u>88,605</u> |
| Total expenditures | <u>-</u> | \$ <u><u>88,605</u></u> | \$ <u><u>88,605</u></u> |
| Receipts over (under) expenditures | 7,650 | | |
| Unencumbered cash, beginning | <u>80,955</u> | | |
| Unencumbered cash, ending | \$ <u><u>88,605</u></u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
GO BOND AND INTEREST FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable (Unfavorable) |
|------------------------------------|------------------|-------------------|--|
| Cash receipts: | | | |
| Ad valorem property tax | \$ 22,039 | \$ 22,484 | \$ (445) |
| Delinquent | 487 | - | 487 |
| Motor vehicle | 7,074 | 7,360 | (286) |
| Recreational vehicle | 89 | 91 | (2) |
| 16/20M vehicle | 55 | 122 | (67) |
| Transfer from sewer utility | 95,360 | 95,360 | - |
| Special assessments | <u>22,126</u> | <u>22,126</u> | <u>-</u> |
| Total cash receipts | <u>147,230</u> | <u>\$ 147,543</u> | <u>\$ (313)</u> |
| Expenditures: | | | |
| Bond principal | 117,600 | \$ 117,645 | \$ 45 |
| Bond interest | 49,722 | 49,735 | 13 |
| Cash basis reserve | <u>-</u> | <u>67,020</u> | <u>67,020</u> |
| Total expenditures | <u>167,322</u> | <u>\$ 234,400</u> | <u>\$ 67,078</u> |
| Receipts over (under) expenditures | (20,092) | | |
| Unencumbered cash, beginning | <u>86,257</u> | | |
| Unencumbered cash, ending | <u>\$ 66,165</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
METER DEPOSIT FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
For the Year Ended December 31, 2011

| | <u>Actual</u> | <u>Budget</u> | Variance - Favorable <u>(Unfavorable)</u> |
|------------------------------------|-----------------|-----------------|---|
| Cash receipts: | | | |
| Deposits | \$ <u>3,848</u> | \$ <u>5,000</u> | \$ <u>(1,152)</u> |
| Total cash receipts | <u>3,848</u> | <u>\$ 5,000</u> | <u>\$ (1,152)</u> |
| Expenditures: | | | |
| Deposits refunded | <u>4,325</u> | \$ <u>7,000</u> | \$ <u>2,675</u> |
| Total expenditures | <u>4,325</u> | <u>\$ 7,000</u> | <u>\$ 2,675</u> |
| Receipts over (under) expenditures | (477) | | |
| Unencumbered cash, beginning | <u>10,247</u> | | |
| Unencumbered cash, ending | <u>\$ 9,770</u> | | |

The accompanying notes are an integral part
of these financial statements.

CITY OF AUBURN, KANSAS
NOTES TO FINANCIAL STATEMENTS

1 - Reporting Entity

The City of Auburn, Kansas is a municipal corporation governed by an elected six-member council. These financial statements present the City of Auburn, Kansas as the primary government. There are no component units.

2 - Summary of Significant Accounting Policies

a. Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the City for the year ended December 31, 2011:

Governmental funds:

General fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special revenue funds - to account for the proceeds of specific revenue sources (other than special assessments of major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt service funds - to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

Proprietary funds:

Enterprise funds - to account for operations that are financed and operated in a manner similar to private business enterprises - where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges - or where periodic determination of revenue earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

a. Fund Accounting (Continued)

Fiduciary funds:

Expendable trust - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, other governmental units, and/or other funds.

b. Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

c. Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, building and equipment owned by the municipality are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements.

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

d. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budget amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds and the following special revenue fund: capital improvement reserve fund.

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

d. Budgetary Information (Continued)

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

e. Vacation Benefits

Under the terms of the City's personnel policy, City employees are granted vacation leave in varying amounts. These unrecorded accrued vacation leave benefits are not expected to have a material impact on the financial statements in any one year.

3 - Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the Government. The statute requires banks eligible to hold the Government's funds have a main or branch bank in the county in which the Government is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Government's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Government has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Deposits and Investments (Continued)

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the Government's deposits may not be returned to it. State statutes require the Government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Boston, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Government has not designated "peak periods." All deposits were legally secured at December 31, 2011.

At December 31, 2011, the Government's carrying amount of deposits was \$ 1,832,885 and the bank balance was \$ 1,833,145. The bank balance was principally held by one bank resulting in a concentration of credit risk. Of the total bank balance, \$ 488,249 was covered by federal depository insurance, \$ 1,344,637 was collateralized with securities held by the pledging financial institution's agents in the Government's name, with a market value of approximately \$ 1,749,987.

4 - Long-term Debt

The following is a detailed listing of the City's long-term debt:

| <u>Issued</u> | <u>Interest Rates</u> | <u>Date of Issue</u> | <u>Amount of Issue</u> | <u>Date of Final Maturity</u> |
|--|---------------------------|--------------------------|----------------------------|---------------------------------------|
| Revolving loans: | | | | |
| Water pollution control | 3.00% | 06-23-99 | \$ 1,049,203 | 09-01-20 |
| Sewer improvement | 2.51% | 09-01-08 | 477,767 | 09-01-28 |
| General obligation bonds, Series 2005A | 3.65% - 4.06% | 12-01-05 | 335,000 | 12-01-26 |
| General obligation bonds, Series 2006A | 3.65% - 5.40% | 12-01-06 | 355,000 | 12-01-17 |

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)4 - Long-term Debt (Continued)

Changes in long-term liabilities for the City for the year ended December 31, 2011 were as follows:

| <u>Issued</u> | <u>Balance, Beginning of Year</u> | <u>Additions</u> | <u>Reductions/ Payments</u> | <u>Net Change</u> | <u>Balance, End of Year</u> |
|--|---|------------------|---------------------------------|-----------------------|-------------------------------------|
| Revolving loans: | | | | | |
| Water pollution control | \$ 573,834 | \$ - | \$ 53,101 | \$ (53,101) | \$ 520,733 |
| Sewer improvement | 437,819 | - | 19,512 | (19,512) | 418,307 |
| General obligation bonds, Series 2005A | 275,000 | - | 15,000 | (15,000) | 260,000 |
| General obligation bonds, Series 2006A | <u>265,000</u> | <u>-</u> | <u>30,000</u> | <u>(30,000)</u> | <u>235,000</u> |
| Total long-term debt | <u>\$ 1,551,653</u> | <u>\$ -</u> | <u>\$ 117,613</u> | <u>\$ (117,613)</u> | <u>\$ 1,434,040</u> |

Annual debt service requirements to maturity for principal and interest on the revolving loans payable at December 31, 2011 are as follows:

| <u>Year</u> | <u>Revolving Loans Payable</u> | | |
|-------------|--------------------------------|---|---------------------|
| | <u>Principal</u> | <u>Interest and Service Fee</u> | <u>Total</u> |
| 2012 | \$ 74,744 | \$ 25,616 | \$ 100,360 |
| 2013 | 76,904 | 23,456 | 100,360 |
| 2014 | 79,126 | 21,234 | 100,360 |
| 2015 | 81,413 | 18,947 | 100,360 |
| 2016 | 83,767 | 16,593 | 100,360 |
| 2017 - 2021 | 350,054 | 46,775 | 396,829 |
| 2022 - 2026 | 135,014 | 16,886 | 151,900 |
| 2027 - 2028 | <u>58,018</u> | <u>2,825</u> | <u>60,843</u> |
| Total | <u>\$ 939,040</u> | <u>\$ 172,332</u> | <u>\$ 1,111,372</u> |

CITY OF AUBURN, KANSAS
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-term Debt (Continued)

Annual debt service requirements to maturity for principal and interest on GO Bonds, Series 2005A, at December 31, 2011 are as follows:

| <u>Year</u> | <u>GO Bonds, Series 2005A</u> | | |
|-------------|-------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2012 | \$ 15,000 | \$ 11,435 | \$ 26,435 |
| 2013 | 15,000 | 10,888 | 25,888 |
| 2014 | 15,000 | 10,340 | 25,340 |
| 2015 | 15,000 | 9,650 | 24,650 |
| 2016 | 15,000 | 8,960 | 23,960 |
| 2017 - 2021 | 85,000 | 34,220 | 119,220 |
| 2022 - 2026 | <u>100,000</u> | <u>13,200</u> | <u>113,200</u> |
| Total | \$ <u>260,000</u> | \$ <u>98,693</u> | \$ <u>358,693</u> |

Annual debt service requirements to maturity for principal and interest on GO Bonds, Series 2006A, at December 31, 2011 are as follows:

| <u>Year</u> | <u>GO Bonds, Series 2006A</u> | | |
|-------------|-------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2012 | \$ 35,000 | \$ 8,943 | \$ 43,943 |
| 2013 | 35,000 | 7,647 | 42,647 |
| 2014 | 35,000 | 6,335 | 41,335 |
| 2015 | 40,000 | 5,005 | 45,005 |
| 2016 | 45,000 | 3,465 | 48,465 |
| 2017 | <u>45,000</u> | <u>1,733</u> | <u>46,733</u> |
| Total | \$ <u>235,000</u> | \$ <u>33,128</u> | \$ <u>268,128</u> |

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - Interfund Transfers

Operating transfers were as follows for the year ended December 31, 2011:

| <u>From</u> | <u>To</u> | <u>Authority</u> | <u>Amount</u> |
|--------------------|------------------------------|-----------------------|---------------|
| General fund | Capital improvements reserve | K.S.A. 12-825 | \$ 72,922 |
| Sewer utility fund | Sewer replacement fund | City Ordinance #89 | 7,650 |
| Sewer utility fund | GO bond and interest fund | K.S.A. 10-1211 | 95,360 |

6 - Defined Benefit Pension Plan

The City of Auburn, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rate for KPERS employees. The employer rate established for the calendar year 2011 is 6.74%. The City of Auburn, Kansas employer contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$ 14,408, \$ 12,575 and \$ 11,458, respectively, equal to the required contributions for each year.

7 - Commitments

During January 2010, the City entered into a written agreement with the Nebraska Public Gas Agency to purchase natural gas. The contract expires on March 31, 2015.

CITY OF AUBURN, KANSAS

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - Contingencies

In the normal course of operations, the City receives grant funds from various State and federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

9 - Subsequent Events

Management has reviewed subsequent events through June 10, 2012.